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Before the  
Federal Communications Commission  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

FCC 96J-3

In the Matter Of )  
Federal-State Joint Board on )  
Universal Service Recommended )  
Decision )

CC Docket No. 96-45

**Comments of the  
Rural Utilities Service**

**Introduction**

The Rural Utilities Service (RUS) appreciates the opportunity to offer comment to the Commission on the Recommended Decision, adopted November 7, 1996, of the Federal-State Joint Board on Universal Service.

Rural telecommunications and advanced telecommunications services for schools, libraries and rural health care providers flow from basic infrastructure. Rural America encompasses about 80 percent of the nation's landmass, and the ability of rural families and businesses to enter the 21st century and the global economy is linked to a support structure that ensures adequate telecommunications infrastructure. If this structure fails, local economies, educational opportunity, and health care, may fail.

The Commission needs to ensure that the application of the new theory for supporting service set forth in the Act actually works, and that the transition to it is effective. RUS has three points for the Commission's consideration:

1. The relationship between the new universal service support structure and access charge reform must be better tied together.
2. The national revenue benchmark element to be used in determining support levels needs more study and perhaps adjustment.
3. A mechanism to ensure service quality and actual investment in infrastructure needs to be devised.

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**1. The relationship between the new universal service support structure and access charge reform must be better tied together.**

The new universal service support structure (USS) makes explicit at least three current support mechanisms, the Universal Service Fund (USF), Dial Equipment Minutes weighting (DEM), and Long-Term Support (LTS). We expect the new USS to provide more support than the existing USF. However, access charges may come down. If increases in USS do not complement decreases in access charge revenues, the impact on rural carriers may be swift and adverse.

The severity of this impact will depend on the level of dependence carriers have on the various support mechanisms. The 900 rural telecommunications carriers that RUS finances receive over 50 percent of their gross revenue from interexchange access charges. Any significant reduction in access charges will have a profound effect on these rural carriers' infrastructure.

The Recommended Decision freezes the current support mechanisms at 1995/1996 levels. If access charges decrease while the freeze is in place, rural carriers may not have the revenues they need to provide service and continue to build adequate infrastructure.

The transition to the new USS needs to be better tied to access charge and other reforms.

**2. The national benchmark element to be used in determining support levels needs more study and perhaps adjustment.**

USS payments are to be based on a national benchmark revenue level (paragraphs 309 and 310). As with any national average, this benchmark will be dominated by urban revenues. We do not have comparative data on rural versus urban revenues, but we suspect that due to differences in income levels, value of the services provided and market potential there would be considerable difference.

Although basic service subscription levels are consistent between urban and rural areas, subscription to other services may not be. Income level discrepancies may restrict the subscription to vertical services in rural areas. Also, with fewer businesses and professionals per capita, rural areas have less market potential for subscription to vertical services. Paragraph 313 suggests that carriers in high cost areas would be spurred by the national average revenues benchmark to "introduce and market new services." However, these services are not included in the core services, their infrastructure would not be considered in proxy cost models, and therefore they would not be supported. Building unsupported plant to provide such services might cost more than the services would earn.

Using a national revenue benchmark to determine support level effectively places a rural carrier in the position of competing with urban and suburban carriers to reach a certain revenue level. But urban and suburban carriers are not challenged by high cost and limited markets.

A second concern is that using a national revenue benchmark in the equation to determine support level (paragraph 183) requires that local differences in affordability be financed by the states, probably through intrastate USS mechanisms. The national USS would generally ensure affordability by supporting service in high cost areas, but where a state finds that the national average revenue (the main component of the national revenue benchmark) is too high, that state would have to support the difference. Unless all states create adequately funded intrastate mechanisms, local rate affordability may not be assured nationally. Some states, particularly predominately rural western states, may not have adequate intrastate revenues to ensure affordability for their high cost areas through an intrastate universal service support mechanism.

Perhaps the benchmark revenues for carriers should be adjusted for regional, state or local differences. The states or the USS Administrator could set appropriate revenue levels for each carrier for use in calculating USS.

### **3. A mechanism to ensure service quality and actual investment in infrastructure needs to be devised.**

The USS mechanism does not tie receipt of support to investment in infrastructure — it should. The current support mechanisms for independent companies reward investment in infrastructure, and the main criticism is that the system encourages too much investment in infrastructure. The current support mechanisms for Regional Bell Operating Company rural areas are criticized because they do not lead to enough investment in rural infrastructure. The new USS mechanism will provide support based on a proxy cost model, irrespective of actual investment. Without incentive to invest, RUS is concerned that rural telecommunications infrastructure will not be maintained and replaced at the rate necessary to ensure high quality service. The presence of competition would probably solve this problem, but some rural areas may not attract effective competition, and where they do, competition may be targeted towards lower cost subscribers within those areas.

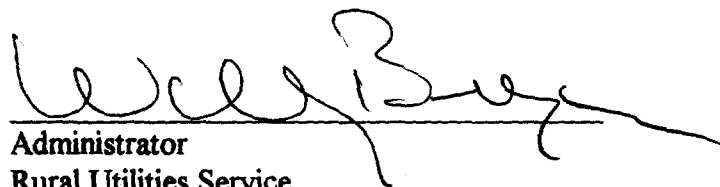
RUS believes that a relationship should be established between the amount of USS provided to an eligible telecommunications carrier and the amount of investment the carrier makes in infrastructure. If the carrier fails to maintain certain investment levels, the USS could be reduced to a level corresponding to actual investment, or additional investment at some level could be required. The percentage mentioned above could even be a variable set by the states or the USS Administrator in consideration of the quality and reliability of service the carrier provides. This would provide the states or the USS Administrator with a powerful tool for ensuring quality of service.

**Conclusion**

The economic health of rural America and the education of our children is tied to the decisions of the Commission on universal service. Congress recognized this and set out to ensure that 80 percent of the landmass is not left behind. In addition to the proxy cost model itself, the three issues set forth above need further attention in order to help meet the mandate established by Congress.

Thank you for the opportunity to comment.

Dated: 12/19/96

  
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Administrator  
Rural Utilities Service